

Mr. Dean Kiklis, Vice President of Reimbursement  
Mariner Post-Acute Network  
530 Stonington Road  
Stonington, Connecticut 06378

Re: AC# 3-MAE-J8 – Mariner Health Care of Sumter - East

Dear Mr. Kiklis:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract periods beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

**MARINER HEALTH CARE OF SUMTER - EAST**

**SUMTER, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1999  
AC# 3-MAE-J8**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 2, 2000

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Mariner Health Care of Sumter - East, for the contract periods beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Mariner Health Care of Sumter - East, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Mariner Health Care of Sumter - East, dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
June 2, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**MARINER HEALTH CARE OF SUMTER - EAST**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1999  
AC# 3-MAE-J8

Interim Reimbursement Rate (1)	\$88.58
Adjusted Reimbursement Rate	<u>86.33</u>
Decrease in Reimbursement Rate	\$ <u>2.25</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

**MARINER HEALTH CARE OF SUMTER - EAST**  
Computation of Adjusted Reimbursement Rate  
For the Contract Periods Beginning October 1, 1999  
AC# 3-MAE-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.48	\$50.88	
Dietary		8.13	9.69	
Laundry/Housekeeping/Maint.		<u>6.83</u>	<u>8.24</u>	
Subtotal	\$ <u>4.82</u>	53.44	68.81	\$53.44
Administration & Med. Rec.	\$ <u>-</u>	<u>14.73</u>	<u>11.56</u>	<u>11.56</u>
Subtotal		68.17	<u>\$80.37</u>	65.00
<u>Costs Not Subject to Standards:</u>				
Utilities		2.46		2.46
Special Services		1.69		1.69
Medical Supplies & Oxygen		4.34		4.34
Taxes and Insurance		1.33		1.33
Legal Fees		<u>.02</u>		<u>.02</u>
TOTAL		<u>\$78.01</u>		74.84
Inflation Factor (3.00%)				2.25
Cost of Capital				6.51
Cost of Capital Limitation				(.34)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.82
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.07)
CNA Add-On				.75
Nurse Aid Staffing Add-On				<u>.57</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$86.33</u>

**MARINER HEALTH CARE OF SUMTER - EAST**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 1998  
 AC# 3-MAE-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DHHS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$2,424,048	\$ -	\$ 23,961 (3) 2,207 (4)	\$2,397,880
Dietary	506,724	-	-	506,724
Laundry	98,397	-	-	98,397
Housekeeping	223,296	-	-	223,296
Maintenance	122,213	-	18,165 (4)	104,048
Administration & Medical Records	826,846	17,040 (2) 23,961 (3) 50,217 (4)	-	918,064
Utilities	160,322	-	6,015 (2) 724 (4)	153,583
Special Services	105,594	-	-	105,594
Medical Supplies & Oxygen	284,088	-	13,824 (5)	270,264
Taxes & Insurance	97,271	2,712 (4)	17,040 (2)	82,943
Legal Fees	1,051	-	-	1,051
Cost of Capital	491,518	280 (1)	83,006 (4) <u>3,128 (6)</u>	405,664
Subtotal	5,341,368	94,210	168,070	5,267,508



**MARINER HEALTH CARE OF SUMTER - EAST**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MAE-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	164,332	-	-	164,332
Non-Allowable	259,919	6,015 (2) 51,173 (4) <u>3,128 (6)</u>	280 (1)	319,955
Total Operating Expenses	<u>\$5,765,619</u>	<u>\$154,526</u>	<u>\$168,350</u>	<u>\$5,751,795</u>
TOTAL PATIENT DAYS	<u>62,312</u>	<u>1 (7)</u>	<u>-</u>	<u>62,313</u>

TOTAL BEDS      176

**MARINER HEALTH CARE OF SUMTER - EAST**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MAE-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$191,946	
	Other Equity	8,552	
	Cost of Capital	280	
	Accumulated Depreciation		\$200,498
	Nonallowable		280
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Administration	17,040	
	Nonallowable	6,015	
	Utilities		6,015
	Taxes and Insurance		17,040
	To disallow expense not related to patient care and reclassify expense to the proper cost center HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
3	Medical Records	23,961	
	Nursing		23,961
	To reclassify ward clerk salaries and related fringe benefits to the proper cost center DH&HS Expense Crosswalk		
4	Administration	50,217	
	Taxes and Insurance	2,712	
	Nonallowable	51,173	
	Nursing		2,207
	Maintenance		18,165
	Utilities		724
	Cost of Capital		83,006
	To adjust home office cost allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**MARINER HEALTH CARE OF SUMTER - EAST**  
Adjustment Report  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MAE-J8

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
5	Other Revenue Medical Supplies	13,824	13,824
	To properly offset income against related expense HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
6	Nonallowable Cost of Capital	3,128	3,128
	To adjust capital return to allowable State Plan, Attachment 4.19D		
7	<u>Memo Adjustment</u> To increase total patient days by 1 to 62,313		
	Total Adjustments	<u>\$368,848</u>	<u>\$368,848</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MARNIER HEALTH CARE OF SUMTER - EAST**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC#3-MAE-J8

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>88</u>	<u>88</u>	
Deemed Asset Value	3,091,440	3,091,440	
Improvements Since 1981	491,100	560,389	
Accumulated Depreciation at 9/30/98	<u>(1,252,051)</u>	<u>(1,072,827)</u>	
Deemed Depreciated Value	2,330,489	2,579,002	
Market Rate of Return	<u>0.063</u>	<u>0.063</u>	
Total Annual Return	146,821	162,477	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	146,821	162,477	
Depreciation Expense	57,612	59,292	
Amortization Expense	2,424	2,436	
Capital Related Income Offsets	(12,856)	(12,542)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	194,001	211,663	\$405,664
Total Patient Days (Minimum 97% Occupancy)	<u>31,156</u>	<u>31,157</u>	<u>62,313</u>
Cost of Capital Per Diem	\$ <u>6.23</u>	\$ <u>6.79</u>	\$ <u>6.51</u>

**MARINER HEALTH CARE OF SUMTER - EAST**  
**Cost of Capital Reimbursement Analysis**  
**For the Cost Report Period Ended September 30, 1998**  
**AC# 3-MAE-J8**

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 4.13	\$ 2.13
Adjustment for Maximum Increase	<u>3.99</u>	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>8.12</u>	<u>6.12</u>
Reimbursable Cost of Capital Per Diem		\$6.17
Cost of Capital Per Diem		<u>6.51</u>
Cost of Capital Per Diem Limitation		\$ <u>(.34)</u>